STATEMENT OF
THE AMERICAN FARM BUREAU FEDERATION
TO THE HOUSE AGRICULTURE SUBCOMMITTEE
ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT
REGARDING A MID-TERM REVIEW OF THE
FARM SECURITY AND RURAL INVESTMENT ACT OF 2002

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Presented By
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Thank you for inviting the American Farm Bureau Federation to participate in this review of the 2002 farm bill. I am Kenneth Dierschke, president of Texas Farm Bureau and member of the American Farm Bureau Federation (AFBF) Board. I am a cotton farmer from San Angelo, Texas.

Let me start by unequivocally stating that the farm bill is working. This mid-term review conveys the committee's commitment to agriculture and maintenance of the current farm bill. AFBF appreciates your continued support and efforts to maintain safe and stable agricultural and rural economies. The challenges with authorizing and administering new programs, as well as restructuring old programs can be very daunting. The Agriculture Department worked tirelessly to meet many of the deadlines established by Congress.

Unpredictable weather conditions and markets, uncertainties involved with international trade, the value of the dollar and variable input costs have produced turbulent and difficult times for agriculture. The farm bill helps American farmers and ranchers weather financial storms and it provides unprecedented funds for our nation's conservation needs. This is the most environmentally conscious farm bill in the history of our nation's agricultural policy. The nutritional needs of the poor, underprivileged, senior citizens and children are also funded through this law.

When the committee began hearings to consider writing the current farm bill in 2000 and 2001, farm commodity prices were at historic lows and government spending for agriculture was high. What a difference two years makes in agriculture. Farm prices have improved, but it is important to note that there are still numerous states affected by multi-year droughts and all farms are affected by high input costs.

The Farm Security and Rural Investment Act (farm bill) has worked as intended. A safety net is available to farmers and ranchers when commodity prices are low. When prices rise, the law functions accordingly without additional funding from the government via counter cyclical payments or loan deficiency payments. The Congressional Budget Office (CBO) says the actual spending level for the bill is $15 billion less or 30 percent lower in the first three fiscal years than the CBO projection when the bill became law. Farm Bureau anticipates outlays to be lower than originally expected in fiscal year 2005 given the lag in government payments and current market prices.

<u>Prices and Costs:</u>

Producers of many commodities are receiving a much-needed income boost in farm gate prices this year, however, higher prices for many commodities does not necessarily mean farmers are getting rich. Total production expenditures for agriculture in 2004 are expected to be eight percent above 2002 levels, reaching $207.5 billion.

Farmers spent more than $2.6 billion in additional energy expenditures for 2003 than in 2002. World oil prices hit the $40 per barrel mark last week and set a 13-year high. Oil analysts say prices are not likely to ease any time soon. Duane Smith, a Montana State University economist says rising fuel costs could decrease farm earnings 17 to 28 percent this year compared to last year.

While high grain prices are good for grain producers, they have significantly increased feeding costs for livestock producers who must purchase grain to feed their animals. Chris Hurt, Purdue University marketing specialist, predicts that based on current futures prices for corn and soy meal and hog prices forecasts, losses could average about $2 per live hundredweight over the next 12 months.

According to the Livestock Marketing Information Center, cattle feeders will post losses well over $50 per head at least through August.

Prices of hot-rolled steel have risen 66 percent in the last eight months to nearly $500 a ton.

In 2002, agriculture spent $6.5 billion on fuel. According to USDA, this year fuel costs will grow to $8.4 billion, a 29 percent jump.

Overall, manufactured inputs are up 14 percent in 2004 compared to 2002.

Federal Reserve Board Chairman Greenspan recently testified that deflation has diminished as a threat to the economy and U.S. banks are prepared to handle an increase in interest rates. A survey of 55 economists finds a clear majority expect the Federal Reserve to raise interest rates regularly beginning in June, with the benchmark federal funds rate rising from the current one percent to 3.5 percent by December 2005.

<u>Mid-Term Review:</u>

Mr. Chairman, I would like to stress four points relating to the farm bill.

1. <u>The results of the ongoing Doha Round of trade negotiations in the World Trade Organization (WTO), in particular the results agreed to on domestic support commitments, must be known and taken into account before the farm community and Congress make changes to the current bill or begin discussion of a new farm bill.</u> New international rules and disciplines on domestic support

programs are currently being debated as part of the Doha Round. Farm Bureau strongly supports these negotiations as a means to achieve greater harmonization of trade distorting domestic subsidies, the eventual elimination of export subsidies and important new market opportunities for U.S. agricultural products around the world. However, the negotiations are moving slowly. It is clear that they cannot be concluded successfully before 2006 or perhaps even 2007.

As it relates to the WTO negotiations, there are two ways to approach the question of when the farm bill should be altered.

One would be to make changes in the farm bill for domestic reasons and offer those "reforms" as U.S. commitments in the trade negotiations. This approach puts the cart before the horse. It modifies U.S. programs without full knowledge of the obligations the United States would be expected to assume as part of an overall WTO trade agreement. It also makes changes without knowing what kind of concessions we are going to receive from our trading partners, particularly in the area of market access. Our trading partners would infer that the United States is assuming a "take it or leave it" negotiating position on domestic supports, thus weakening our leverage in both domestic support and other areas of the agricultural talks. The only other option would be a completely new farm bill would have to be written based on the outcome of the negotiations. The result would be a failure to achieve our agricultural objectives because our reforms fall short of WTO requirements or that our domestic support program reforms are not fully or adequately compensated by foreign reduction commitments on domestic supports, export subsidies or market access barriers.

The other approach would be to negotiate a WTO agreement that accomplishes our objectives with respect to harmonization of domestic supports and then to modify our farm bill accordingly -- and to the extent necessary -- based on the final outcome of the negotiations. This approach provides U.S. negotiators with stronger negotiating leverage and avoids the danger of having undertaken reforms that may not help us achieve our objectives in the negotiations. We are simply not far enough along in the negotiations to anticipate a likely WTO outcome and to make changes to the farm bill that would likely require modification two years later.

The modalities for the negotiations on domestic supports need to be clearly defined before it is reasonable to change the farm bill. Those modalities will provide the specifics on what kind of cuts in domestic support will be required of WTO members. Without the modality numbers, it will not likely be enough to simply reduce program spending and assume that this alone would assure future U.S. compliance with WTO domestic support commitments.

As you know, countries assumed commitments in the previous trade round (the Uruguay Round) based on the extent to which their programs distort trade. Levels of support were reduced and fixed for the most trade-distorting programs (under the so-called "Amber Box.") The U.S. limit for Amber Box spending is now $19.1 billion. We do not know what the new U.S. limit will be or what type of programs may be included in the Amber Box as a result of the Doha negotiations.

A second box – the Blue Box – was also established in the Uruguay Round that allowed trade distorting support programs under certain production-limiting provisions to be exempt from the amber box limits. At the end of the Uruguay Round the United States operated such programs, but ended their use in the 1996 farm bill. They were the old set-aside programs. While the United States has given up the use of Blue Box, the European Union still makes heavy use of the exemption. The United States is pressing for a revised Blue Box that would permit, but limit, expenditures for certain less-trade-distorting programs such as our current counter-cyclical payments. There is no way to know what the final outcome will be with respect to Blue Box commitments.

The third box – the Green Box – covers non-trade-distorting programs such as the school lunch program, food stamps, research and conservation programs. The Green Box is not likely to be substantially changed in the trade negotiations, although there may be some tightening of criteria for eligibility.

There is never a closed season when it comes to attacks on U.S. farm policy. Purely out of self-interest, other countries routinely criticize U.S. farm programs. AFBF has been consistent in its support of true reform of the three pillars of world agricultural policy - export subsidies, market access and domestic support. But, Farm Bureau will adamantly fight any attempt to unilaterally cut U.S. farm programs. Very conservatively, it is estimated that each farm program dollar turns over three and one-half times in our local communities. Production agriculture will continue to fuel the economic engine that powers the bulk of rural America. The economic priming effect of our farm programs provides a foundation on which an enhanced rural development program can build. Without the farm program as a base, however, the footings of any stand-alone rural development initiative would crumble.

2. <u>Farm Bureau continues to be opposed to any changes in current farm bill payment limitations.</u> Several amendments and bills have been offered to change this provision since passage of the farm bill. One of the primary objectives of the farm bill was to improve the financial safety net available to farmers and to eliminate the need for annual emergency assistance packages. If limitations on benefits are made more restrictive, a significant number of farmers would not benefit from the improved safety net. Simply stated, payment limits bite hardest when commodity prices are lowest.

Proponents of tighter, more restrictive limitations argue that farm programs cause farmers to enlarge their operations and that a few are receiving most of the benefits. Farmers expand in order to achieve economy of scale and to be competitive in domestic and international markets. Randomly established limitations and increased regulatory burdens do not promote efficiency or competitiveness, but they do increase costs and increase the workload for USDA employees.

One of the most popular results of the last farm bill was that producers could spend less time at their county Farm Service Agency (FSA) office and more time managing their farming operations. Farmers felt the government had stopped micro-managing their business plans. If payment limits were reduced, farmers would be forced to go to their FSA office much more often. The introduction of payment limits causes economic distortions in production decisions and causes producers to seek ways to avoid the payment limits. Producers of farm program crops have adjusted farm structures to the payment limitation system.

In addition, if row-crop producers were forced to reduce plantings due to tighter payment limitations, acreage will likely switch to specialty crops. Increased production could drastically impact specialty crop markets.

3. The farm bill provision that prohibits planting of fruits and vegetables on program crop acres must be maintained and implemented with the same spirit with which it was included in the farm bill. Several amendments and bills have been offered to change this provision since passage of the bill. The provision was meant to prevent fruit and vegetable producers – who receive no government benefits – from having to compete on an un-level playing field with a program crop producer who switches production due to a volatile fruit or vegetable market one year and moves back into crops covered by farm programs the next year. While the provision has not been changed directly, structural changes to farm program crops have greatly reduced the penalties for producers who choose to plant a fruit or vegetable crop on base acres.

Any weakening of the prohibition would destabilize fruit and vegetable markets that do not receive farm program benefits. What might seem like a small acreage shift relative to the size of the national corn or soybean production could be devastating to fruit and vegetable markets.

4. The Conservation Security Program (CSP) must be available to all producers, implemented as a nationwide program that is workable, and funds must be appropriated to make it an effective conservation incentive program. Producers must receive assistance to help defray the cost of ongoing environmental improvements and regulations. Conservation incentives preserve the rights of property owners and improve the nation's environment. According to USDA, the $41 million budget for CSP in FY04 will permit USDA to write only 3,000 to 5,000 contracts -- out of an estimated 1.8 million producers potentially eligible for the program.

The CSP proposed rule has added eligibility restrictions never anticipated by the law. A new requirement to meet both soil and water quality criteria prior to participation in Tier I and Tier II adds new restrictions. This will severely limit eligibility by anyone other than those who have already achieved what the program sought to create. The CSP program should allow anyone to enter a Tier I contract, which requires only the "adoption and maintenance of conservation practices that address at least one identified resource problem on part of the agricultural operation" or Tier II contract, which requires the "adoption and maintenance of conservation practices that address at least one identified resource problem on all of the agricultural operation."

The watershed approach championed by Natural Resources Conservation Service (NRCS) will give individual farmers and ranchers the opportunity to participate in the program only once every eight years.

While we understand the initial reasoning for targeting watersheds, we contend that CSP should be available to all agricultural producers, rather than in only a few watersheds. Enactment of the 2004 Omnibus Appropriations removed funding limits previously imposed on this program. The final rule should reflect that change and must include extensive revisions to the budget-driven application, implementation and eligibility requirements in the proposed regulation.

Overall, the proposed rule is too restrictive and provides too little financial incentive for many farmers and ranchers to participate. We have encouraged NRCS to change this proposal before the regulation is finalized. We recommended that NRCS address the program's overall lack of clarity by finalizing a regulation that is easy to understand and fosters participation.

The proposed rule restricts the practices eligible for reimbursement and provides payment at a lower rate than those provided in Environmental Quality Incentive Program and other USDA conservation programs. The benefit cost assessment refers to a rate as low as five percent. This approach is counter-productive and will make it difficult or impossible for many producers to afford to participate in CSP.

The statute clearly directs the Agriculture Secretary to establish a base payment. Specifically it requires the secretary to determine "the average national per-acre rental rate for specific land use during the 2001 crop year or another appropriate rate for the 2001 crop year that ensures regional equity." Congress made very clear that it intended for the base stewardship payment to be based on rental rates and the Statement of Managers specifically emphasized that "the secretary shall not provide a rate lower than the national average rental rate."

We are equally concerned about the proposed eligibility requirement that would require the applicant to have control of the land for the life of the CSP contract. Many rental arrangements in all areas of the country are on an annual basis. In addition, annual contracts are currently more prominent with the annual signup requirements for the current farm bill. While multi-year rental contracts do occur, it is unlikely that a tenant could ensure that he would have control of the land for a five to10 year period at the time of application. A requirement that the applicant have control of the land for the entire contract period at the time of application will severely limit the ability of commercial-size tenant producers to participate in this program.

Finally, it is imperative that producers and Congress remember we are in the middle of the WTO Doha Round. We know that the outcome of those negotiations will likely reduce Amber Box trade-distorting supports and that Green Box non-trade-distorting supports are far less likely to be capped. Some of the support provided this program from Farm Bureau members comes from our hope to balance our domestic support programs and our potential international obligations. Voluntary conservation programs like CSP that provide direct payments and comply with the WTO Green Box requirements are likely to be an important part of future U.S. farm policy.

In conclusion, midstream changes in the farm bill would be devastating not only to farmers and ranchers but the rural economy as well. Many farmers made marketing and planting decisions for five years based on the programs passed in 2002. The farm bill is working. We will continue to work with Congress to maintain the current programs and funding to fully support and administer this farm bill.

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